

SAMPLE AREA EDUCATION AGENCY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of area education agencies should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format displays the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the basic financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the agency feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Agency's cognizant or oversight agency, which is generally:

United States Department of Education
Office of Inspector General
Office of Audit
Region VII/VIII
P.O. Box 901381
Kansas City, MO 64190-1381
(816) 880-4022

Iowa Department of Education
Budgeting and Finance Team
Grimes Building
400 East 14th Street
Des Moines, IA 50319-0146
(515) 281-4729

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac> or by calling 1-800-253-0696 (Form number SF-SAC). Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
P.O. Box 5000
Jeffersonville, IN 47199-5000

One copy of the audit report should be filed with the Iowa Department of Education regardless of whether the audit was performed in accordance with OMB Circular A-133. Reports filed with the Iowa Department of Education should include the management letter(s) if issued separately.

The findings on compliance, items IV-A-04 through IV-I-04, detail those items which are to be commented on regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the Agency. The per diem audit billing (including fee, expenses and hours) should be submitted with two copies of the report filed with our office.

Beginning with audit reports issued for the year ending June 30, 2004, we will be providing internet access to reports issued by CPA firms to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the Agency and a copy should be sent to this office with the two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in our office.

In accordance with Chapter 11 of the Code of Iowa, our office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to area education agencies. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

Sample Area Education Agency

Outline of Major Changes

1. Amended Single Audit threshold to \$500,000.
2. An electronic copy of the audit report in PDF format, is to be submitted in addition to the required paper copies.

Additional Notes

1. **Samples A** and **B**, attached, include illustrations of an Independent Auditor's Report and Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting for an entity when a Single Audit is not required.
 2. Also attached is a sample Corrective Action Plan for Federal Audit Findings (See **Sample C**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample D**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
 3. The attached sample Corrective Action Plan refers the user to the entity's response to the auditor's comment for the detailed corrective action planned. If the entity's response to the auditor's comment does not include the details of their planned corrective action, this information should be included in the Corrective Action Plan itself.
 4. The Iowa Department of Education is encouraging audit reports be filed electronically with each report submitted on a separate CD. For more information, contact Jeannie.Ramirez@ed.state.ia.us.
 5. Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to Janice.Evans@ed.state.ia.us.
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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Officials of Sample Entity:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Entity as of and for the year ended June 30, 2004, which collectively comprise Sample Entity's basic financial statements listed in the table of contents. These financial statements are the responsibility of Sample Entity's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Entity at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2004 on our consideration of Sample Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages __ through __ and __ through __ are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sample Entity's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through __ is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Officials of Sample Entity:

We have audited the financial statements of Sample Entity as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Entity. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item (1).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Additional Notes (continued)**Sample B**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Entity and other parties to whom Sample Entity may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Entity during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Additional Notes (continued)**Sample C**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2004

| Comment Number | Comment Title | Corrective Action Plan | Contact Person, Title, Phone Number | Anticipated Date of Completion |
|----------------|---|--|--|--|
| III-A-04 | Unsupported Expenditures | The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs. | Tom Claim, Sample Entity Administrator, (515) YYY-XXXX | Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 15, 2004. |
| III-B-04 | Segregation of Duties over Federal Revenues | The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs. | Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX | October 31, 2004 |
| III-C-04 | Financial Reporting | As noted in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame. | Joe Smith, Program Director, (515) YYY-XXXX | Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004. |

Sample Entity

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

| Comment Reference | Comment Title | Status | If not corrected, provide planned corrective action or other explanation |
|----------------------------------|---|---|---|
| III-C-01 III-B-02 III-B-03 | Minority Business Enterprise/ Women Business Enterprise (MBE/WBE) | No longer valid; does not warrant further action. | Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part. |
| III-A-02 III-A-03 | Segregation of Duties over Federal Reserves | Not corrected. | Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff. |
| III-C-02 III-C-03 | Fixed Assets | Corrective action taken. | |
| III-D-03 | Financial Reporting | Partially corrected. | Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004. |



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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

Contact: Andy Nielsen
515/281-5515

Auditor of State David A. Vaudt today released an audit report on Sample Area Education Agency in Anywhere, Iowa.

The Agency has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The financial statements now include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Also included is Management's Discussion and Analysis of the Agency's financial statements.

_____ reported the Agency had revenues of \$_____ for the year ended June 30, 2004, which included \$_____ from local sources, \$_____ from state sources and \$_____ in federal sources.

Agency expenses totaled \$_____, a(n) ____ percent increase (decrease) from the prior year. These included \$_____ for instruction, \$_____ for student support services and \$_____ for instructional staff support services.

The significant increase (decrease) in expenses is due primarily to _____.

A copy of the audit report is available for review in the Office of Auditor of State and the Agency's Business Office.

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SAMPLE AREA EDUCATION AGENCY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

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Sample Area Education Agency

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---------------------------|----------------|---------------------|
| Board of Directors | | |
| Lawrence Riley | President | 2004 |
| Rex Meyer | Vice-President | 2004 |
| Robert Burns | Member | 2004 |
| Shirley Jones | Member | 2004 |
| Gerald Morgan | Member | 2004 |
| Gordon Smith | Member | 2004 |
| Leda Rouse | Member | 2005 |
| Oscar Newton | Member | 2005 |
| Gladys Johnson | Member | 2005 |

Agency

| | | |
|------------------|--------------------------------|------------|
| Richard L. Boss | Administrator | 2004 |
| Sharon Shorthand | Board Secretary | 2004 |
| Bob Balance | Business Manager and Treasurer | Indefinite |

Sample Area Education Agency



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STATE OF IOWA

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Independent Auditor's Report

To the Board of Directors of
Sample Area Education Agency:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of Sample Area Education Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Sample Area Education Agency's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample Area Education Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$15,495,554 in fiscal 2003 to \$16,265,957 in fiscal 2004, while General Fund expenditures increased from \$17,302,985 in fiscal 2003 to \$18,199,767 in fiscal 2004. This resulted in a decrease in the Agency's General Fund balance from \$4,962,836 for fiscal 2003 to \$2,885,747 for fiscal 2004, a 42 percent decrease.
- The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in services provided to the local school districts. One reason the General Fund balance decreased is because the services provided to the school districts were greater than the Agency's increase in General Fund revenue for fiscal 2004. As a result, the Agency funded a portion of the current year General Fund services from the carryover fund balance.
- Senate File 453 of the 2003 Iowa General Assembly temporarily reduced controlled funding for AEA's by \$10 million. Sample AEA's portion of this is \$1,000,000. This reduction was offset by containment of non-personnel expenses and unreserved fund balances.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Sample Area Education Agency as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Sample Area Education Agency's net assets at the end of fiscal 2004 totaled approximately \$6.6 million. This compared to approximately \$7.6 million at the end of fiscal 2003. The analysis that follows focuses on the net assets and changes in net assets.

| Condensed Statement of Net Assets (Expressed in Thousands) | | | | | | |
|---|-------------------------|--------|--------------------------|------|----------|--------|
| | Governmental Activities | | Business Type Activities | | Total | |
| | June 30, | | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Current and other assets | \$ 6,327 | 8,213 | 13 | 15 | 6,340 | 8,228 |
| Capital assets | 4,542 | 3,247 | - | - | 4,542 | 3,247 |
| Total assets | 10,869 | 11,460 | 13 | 15 | 10,882 | 11,475 |
| Long-term liabilities | 904 | 1,012 | - | - | 904 | 1,012 |
| Other liabilities | 3,391 | 2,893 | 2 | 1 | 3,393 | 2,894 |
| Total liabilities | 4,295 | 3,905 | 2 | 1 | 4,297 | 3,906 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 3,643 | 2,230 | - | - | 3,643 | 2,230 |
| Restricted | 661 | 1,129 | - | - | 661 | 1,129 |
| Unrestricted | 2,270 | 4,196 | 11 | 14 | 2,281 | 4,210 |
| Total net assets | \$ 6,574 | 7,555 | 11 | 14 | 6,585 | 7,569 |

The Agency's combined net assets decreased by 13%, or approximately \$984,000, from fiscal 2003. The decrease occurred primarily in governmental activities as a result of providing more services to local school districts during the year ended June 30, 2004. The decrease in unrestricted net assets was primarily due to the Agency using carryover fund balance to meet its financial obligations during the year.

The following analysis details the changes in net assets of the Agency's activities.

| | Changes in Net Assets (Expressed in Thousands) | | | | | |
|--------------------------------------|---|--------|--------------------------|------|---------------------|--------|
| | Governmental Activities | | Business Type Activities | | Total | |
| | Year ended June 30, | | Year ended June 30, | | Year ended June 30, | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for service | \$ 4,091 | 4,044 | 254 | 250 | 4,345 | 4,294 |
| Operating grants and contributions | 15,951 | 15,695 | - | - | 15,951 | 15,695 |
| General revenues: | | | | | | |
| Unrestricted investment earnings | 191 | 222 | - | - | 191 | 22 |
| Total revenues | 20,233 | 19,961 | 254 | 250 | 20,487 | 20,011 |
| Program expenses: | | | | | | |
| Instruction | 7,295 | 7,072 | - | - | 7,295 | 7,072 |
| Student support services | 4,700 | 4,423 | - | - | 4,700 | 4,423 |
| Instructional staff support services | 5,313 | 5,143 | - | - | 5,313 | 5,143 |
| General administration | 2,070 | 2,009 | - | - | 2,070 | 2,009 |
| Business administration | 815 | 661 | - | - | 815 | 661 |
| Plant operations and maintenance | 350 | 341 | - | - | 350 | 341 |
| Central and other support services | 630 | 601 | - | - | 630 | 601 |
| Long-term debt interest | 41 | 46 | - | - | 41 | 46 |
| Non-instructional programs | - | - | 257 | 251 | 257 | 251 |
| Total expenses | 21,214 | 20,296 | 257 | 251 | 21,471 | 20,547 |
| Decrease in net assets | (981) | (335) | (3) | (1) | (984) | (336) |
| Net assets beginning of year | 7,555 | 7,890 | 14 | 15 | 7,569 | 7,905 |
| Net assets end of year | \$ 6,574 | 7,555 | 11 | 14 | 6,585 | 7,569 |

Operating grants and contributions from local, state and federal sources account for 77.9% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 83.9% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$20,232,605 and expenses were \$21,214,000. In a difficult budget year, the Agency was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

Business Type Activities

Revenues of the Agency's business type activities were \$253,221 and expenses were \$256,552. The Agency's business type activity is the Cooperative Purchasing program. Revenues for this activity are comprised of charges for service. Expenses are for the purchase of items for resale.

INDIVIDUAL FUND ANALYSIS

As previously noted, Sample Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$3,123,091, below last year's ending fund balances of \$5,508,628. The primary reason for the decrease in combined fund balances in fiscal 2004 was due to the increased services provided to local school districts and the near completion of a new learning center.

Governmental Fund Highlights

- The Agency's decreasing General Fund financial position is the product of many factors, including growth during the year in the number of students served and the services needed by local school districts. The increase in revenues was more than offset by the Agency's increase in General Fund expenditures, requiring the Agency to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$4,962,836 to \$2,885,747 due, in part, to the additional services provided and the current year reduction in state aid.
- The Capital Projects Fund balance decreased due to the near completion of the learning center. The Agency ended fiscal 2003 with a balance of \$507,282. Fiscal 2004 ended with a balance of \$42,468 due to the project being approximately 94% complete.

Proprietary Fund Highlights

- The Cooperative Purchasing program net assets decreased from \$14,223 at June 30, 2003 to \$10,892 at June 30, 2004, representing a decrease of approximately 23 percent. The Agency has not revised its pricing policies in the past 3 years and has reported a net loss for the second year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Agency had invested \$4.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately \$1.3 million from last year. This increase was primarily due to the continued construction of the new learning center and an increase in library materials, many of which are included in the new learning center.

Sample Area Education Agency had depreciation expense of \$764,533 in fiscal 2004 and total accumulated depreciation of \$3,152,769 at June 30, 2004. More detailed information about capital assets is available in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2004, the Agency had \$1,091,163 in long-term debt outstanding compared to \$1,200,485 at June 30, 2003. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the budget based on requests from local school districts.
- The Agency has evaluated its pricing policies regarding the cooperative purchasing program. The Board of Directors has approved an increase in the administrative fee charged, so revenues are anticipated to increase in the next fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Business Manager's Office, 77 Sunset Strip, Anywhere, Iowa, 50000.

Basic Financial Statements

Sample Area Education Agency

Sample Area Education Agency

Statement of Net Assets

June 30, 2004

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 4,740,456 | 8,586 | 4,749,042 |
| Receivables: | | | |
| Accounts | 909,094 | - | 909,094 |
| Due from other governments | 359,629 | 3,564 | 363,193 |
| Inventories | 202,314 | 958 | 203,272 |
| Prepaid expenses | 9,774 | - | 9,774 |
| Restricted ISCAP assets: | | | |
| Investments | 96,597 | - | 96,597 |
| Accrued interest receivable | 8,937 | - | 8,937 |
| Capital assets (net of accumulated depreciation) | 4,541,840 | - | 4,541,840 |
| Total assets | 10,868,641 | 13,108 | 10,881,749 |
| Liabilities | | | |
| Accounts payable | 2,224,965 | 2,216 | 2,227,181 |
| Salaries and benefits payable | 745,260 | - | 745,260 |
| ISCAP warrants payable | 98,000 | - | 98,000 |
| ISCAP accrued interest payable | 6,597 | - | 6,597 |
| Deferred revenue: | | | |
| Federal | 87,780 | - | 87,780 |
| Miscellaneous | 41,108 | - | 41,108 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| Certificates of participation | 60,854 | - | 60,854 |
| Capital leases | 45,268 | - | 45,268 |
| Compensated absences | 80,653 | - | 80,653 |
| Portion due or payable after one year: | | | |
| Certificates of participation | 610,153 | - | 610,153 |
| Capital leases | 183,113 | - | 183,113 |
| Compensated absences | 111,122 | - | 111,122 |
| Total liabilities | 4,294,873 | 2,216 | 4,297,089 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 3,642,452 | - | 3,642,452 |
| Restricted for: | | | |
| Special education instruction | 616,096 | - | 616,096 |
| Debt service | 2,513 | - | 2,513 |
| Other | 42,468 | - | 42,468 |
| Unrestricted | 2,270,239 | 10,892 | 2,281,131 |
| Total net assets | \$ 6,573,768 | 10,892 | 6,584,660 |

See notes to financial statements.

Sample Area Education Agency

Statement of Activities

Year ended June 30, 2004

| | | Program Revenues | |
|--------------------------------------|---------------|---------------------|-------------------------------------|
| | Expenses | Charges for Service | Operating Grants, and Contributions |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Instruction | \$ 7,295,410 | 3,836,560 | 4,856,980 |
| Student support services | 4,700,325 | 119,647 | 4,955,254 |
| Instructional staff support services | 5,312,730 | 78,665 | 6,138,327 |
| General administration | 2,070,162 | - | - |
| Business administration | 814,780 | - | - |
| Plant operations and maintenance | 349,474 | - | - |
| Central and other support services | 629,852 | 56,129 | - |
| Interest on long-term debt | 41,267 | - | - |
| Total governmental activities | 21,214,000 | 4,091,001 | 15,950,561 |
| Business type activities: | | | |
| Non-instructional programs: | | | |
| Cooperative purchasing | 256,552 | 253,221 | - |
| Total | \$ 21,470,552 | 4,344,222 | 15,950,561 |
| General revenues: | | | |
| Unrestricted investment earnings | | | |
| Change in net assets | | | |
| Net assets beginning of year | | | |
| Net assets end of year | | | |
| See notes to financial statements. | | | |

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|-------------|
| Governmental Activities | Business type Activities | Total |
| 1,398,130 | - | 1,398,130 |
| 374,576 | - | 374,576 |
| 904,262 | - | 904,262 |
| (2,070,162) | - | (2,070,162) |
| (814,780) | - | (814,780) |
| (349,474) | - | (349,474) |
| (573,723) | - | (573,723) |
| (41,267) | - | (41,267) |
| (1,172,438) | - | (1,172,438) |
| - | (3,331) | (3,331) |
| (1,172,438) | (3,331) | (1,175,769) |
| 191,043 | - | 191,043 |
| (981,395) | (3,331) | (984,726) |
| 7,555,163 | 14,223 | 7,569,386 |
| \$ 6,573,768 | 10,892 | 6,584,660 |

Exhibit C

Sample Area Education Agency

Balance Sheet
Governmental Funds

June 30, 2004

| | Special Revenue Special Education | | | |
|---|--------------------------------------|----------------|---------------|------------------|
| | General | Instruction | Nonmajor | Total |
| Assets | | | | |
| Cash and pooled investments | \$ 4,695,475 | - | 44,981 | 4,740,456 |
| Receivables: | | | | |
| Accounts | 292,998 | 616,096 | - | 909,094 |
| Due from other governments | 310,742 | - | 48,887 | 359,629 |
| Inventories | 202,314 | - | - | 202,314 |
| Prepaid expenditures | 9,774 | - | - | 9,774 |
| Restricted ISCAP assets | | | | |
| Investments | 96,597 | - | - | 96,597 |
| Accrued interest receivable | 8,937 | - | - | 8,937 |
| Total assets | \$ 5,616,837 | 616,096 | 93,868 | 6,326,801 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,810,703 | 370,982 | 43,280 | 2,224,965 |
| Salaries and benefits payable | 686,902 | 52,751 | 5,607 | 745,260 |
| ISCAP warrants payable | 98,000 | - | - | 98,000 |
| ISCAP accrued interest payable | 6,597 | - | - | 6,597 |
| Deferred revenue: | | | | |
| Federal | 87,780 | - | - | 87,780 |
| Miscellaneous | 41,108 | - | - | 41,108 |
| Total liabilities | 2,731,090 | 423,733 | 48,887 | 3,203,710 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Inventories | 202,314 | - | - | 202,314 |
| Prepaid expenditures | 9,774 | - | - | 9,774 |
| Unreserved: | | | | |
| Designated for subsequent year's expenditures | 823,926 | 7,810 | - | 831,736 |
| Undesignated, reported in: | | | | |
| General fund | 1,849,733 | - | - | 1,849,733 |
| Special revenue funds | - | 184,553 | - | 184,553 |
| Capital projects fund | - | - | 42,468 | 42,468 |
| Debt service fund | - | - | 2,513 | 2,513 |
| Total fund balances | 2,885,747 | 192,363 | 44,981 | 3,123,091 |
| Total liabilities and fund balances | \$ 5,616,837 | 616,096 | 93,868 | 6,326,801 |

See notes to financial statements.

Sample Area Education Agency

Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Assets

June 30, 2004

| | |
|---|--------------|
| Total governmental fund balances (page 18) | \$ 3,123,091 |
|---|--------------|

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | |
|--|-----------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$7,694,609 and the accumulated depreciation is \$3,152,769. | 4,541,840 |
|--|-----------|

| | |
|---|--------------------|
| Long-term liabilities, including certificates of participation, capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(1,091,163)</u> |
|---|--------------------|

| | |
|--|----------------------------|
| Net assets of governmental activities (page 15) | <u><u>\$ 6,573,768</u></u> |
|--|----------------------------|

See notes to financial statements.

Exhibit E

Sample Area Education Agency

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

| | Special Revenue | | | |
|--|-------------------|-------------|-----------|-------------|
| | Special Education | | | |
| | General | Instruction | Nonmajor | Total |
| Revenues: | | | | |
| Local sources | \$ 5,577,980 | 3,507,185 | 10,953 | 9,096,118 |
| State sources | 7,553,767 | 178,362 | 270,148 | 8,002,277 |
| Federal sources | 3,134,210 | - | - | 3,134,210 |
| Total revenues | 16,265,957 | 3,685,547 | 281,101 | 20,232,605 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 3,821,951 | 3,456,754 | 266,459 | 7,545,164 |
| Student support services | 4,731,939 | - | - | 4,731,939 |
| Instructional staff support services | 5,459,930 | - | - | 5,459,930 |
| General administration | 2,001,974 | 73,045 | 3,689 | 2,078,708 |
| Business administration | 909,988 | - | - | 909,988 |
| Plant operations and maintenance | 363,995 | - | - | 363,995 |
| Central and other support services | 909,990 | - | - | 909,990 |
| Facilities acquisition and construction | - | - | 469,438 | 469,438 |
| Debt service | - | - | 148,990 | 148,990 |
| Total expenditures | 18,199,767 | 3,529,799 | 888,576 | 22,618,142 |
| Excess (deficiency) of revenues over (under) expenditures | (1,933,810) | 155,748 | (607,475) | (2,385,537) |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 143,279 | 143,279 |
| Transfers out | (143,279) | - | - | (143,279) |
| Total other financing sources (uses) | (143,279) | - | 143,279 | - |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (2,077,089) | 155,748 | (464,196) | (2,385,537) |
| Fund balances beginning of year | 4,962,836 | 36,615 | 509,177 | 5,508,628 |
| Fund balances end of year | \$ 2,885,747 | 192,363 | 44,981 | 3,123,091 |

See notes to financial statements.

Sample Area Education Agency

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 20) \$ (2,385,537)***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | |
|---------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 1,774,284 | |
| Depreciation expense | <u>(479,464)</u> | 1,294,820 |

Repayment of long-term liabilities is an expenditure in the governmental funds, reduces long-term liabilities in the Statement of Net Assets but is not reported in the Statement of Activities.

107,723

Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

1,599**Change in net assets of governmental activities (page 17)**\$ (981,395)

See notes to financial statements.

Exhibit G

Sample Area Education Agency

Statement of Net Assets
Proprietary Fund

June 30, 2004

| | <u>Cooperative Purchasing</u> |
|----------------------------|-----------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 8,586 |
| Due from other governments | 3564 |
| Inventories | <u>958</u> |
| Total assets | 13,108 |
| Liabilities | |
| Accounts payable | <u>2,216</u> |
| Net Assets | |
| Unrestricted | <u><u>\$ 10,892</u></u> |

See notes to financial statements.

Exhibit H

Sample Area Education Agency
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

| | <u>Cooperative Purchasing</u> |
|------------------------------|-----------------------------------|
| Operating revenues: | |
| Charges for service | \$ 253,221 |
| Operating expenses: | |
| Non-instructional programs: | |
| Supplies and materials | <u>256,552</u> |
| Net loss | (3,331) |
| Net assets beginning of year | <u>14,223</u> |
| Net assets end of year | <u><u>\$ 10,892</u></u> |

See notes to financial statements.

Sample Area Education Agency

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

| | <u>Cooperative Purchasing</u> |
|---|-----------------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 249,657 |
| Cash paid to suppliers | (257,284) |
| Net cash used in operating activities | <u>(7,627)</u> |
| Cash and cash equivalents beginning of year | <u>16,213</u> |
| Cash and cash equivalents end of year | <u><u>\$ 8,586</u></u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (3,331) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Decrease in inventories | 154 |
| (Increase) in due from other governments | (3,564) |
| (Decrease) in accounts payable | (886) |
| Net cash used in operating activities | <u><u>\$ (7,627)</u></u> |

See notes to financial statements.

Sample Area Education Agency

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Sample Area Education Agency is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 61 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Area Education Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. Sample Area Education Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency reports the following major propriety fund:

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities that are performed as a service to staff and consist primarily of vending machine operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund of the Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's Enterprise Fund is charges to customers for services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

All short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 2,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 10,000 |
| Furniture and equipment | 2,000 |
| Library books | 2,000 |

Capital assets of the Agency are depreciated using the straight line method of depreciation over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------------------|--|
| Buildings | 50 |
| Improvements other than buildings | 20-50 |
| Furniture and equipment | 5-15 |
| Library books | 5-10 |

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year end. The Agency's investments are all Category 1, which means the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

The Agency's investments at June 30, 2004 consisted of the following:

| Type | Fair Value |
|---------------------|---------------------|
| U.S. Treasury Notes | <u>\$ 3,970,150</u> |

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$327,441 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank Iowa, N.A, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo Bank Iowa, N.A. maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the Statement of Net Assets and balance sheet. A summary of the Agency's participation in ISCAP as of June 30, 2004 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|------------------|-----------------------------|------------------|--------------------------|
| 2003-04A | 6/20/03 | 6/18/04 | \$ - | 143 | - | - |
| 2003-04B | 1/30/04 | 1/28/05 | 61,982 | 6,490 | 63,033 | 4,412 |
| 2004-05A | 6/30/04 | 6/30/05 | 34,615 | 2,304 | 34,967 | 2,185 |
| Total | | | <u>\$ 96,597</u> | <u>8,937</u> | <u>98,000</u> | <u>6,597</u> |

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

| Series | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|---------------------------------|----------------------|--------------------|---------------------------|
| 2003-04A | \$ - | 30,000 | 30,000 | - |
| 2003-04B | - | 28,000 | 28,000 | - |
| Total | <u>\$ -</u> | <u>58,000</u> | <u>58,000</u> | <u>-</u> |

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------------|-------------------------------------|
| 2003-04A | 2.000% | 1.051% |
| 2003-04B | 2.000% | 1.0385% |
| 2004-05A | 3.000% | 2.463% |

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|------------------|----------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 321,250 | - | - | 321,250 |
| Building in progress | 98,569 | 469,438 | - | 568,007 |
| Total capital assets not being depreciated | <u>419,819</u> | <u>469,438</u> | <u>-</u> | <u>889,257</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 1,508,844 | - | - | 1,508,844 |
| Improvements other than buildings | 502,658 | - | - | 502,658 |
| Furniture and equipment | 1,903,356 | 408,110 | 168,202 | 2,143,264 |
| Library books | 2,350,181 | 896,736 | 596,331 | 2,650,586 |
| Total capital assets being depreciated | <u>6,265,039</u> | <u>1,304,846</u> | <u>764,533</u> | <u>6,805,352</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 844,953 | 30,177 | - | 875,130 |
| Improvements other than buildings | 172,344 | 14,362 | - | 186,706 |
| Furniture and equipment | 951,678 | 213,569 | 168,202 | 997,045 |
| Library books | 1,468,863 | 221,356 | 596,331 | 1,093,888 |
| Total accumulated depreciation | <u>3,437,838</u> | <u>479,464</u> | <u>764,533</u> | <u>3,152,769</u> |
| Total capital assets being depreciated, net | <u>2,827,201</u> | <u>825,382</u> | <u>-</u> | <u>3,652,583</u> |
| Governmental activities capital assets, net | <u>\$ 3,247,020</u> | <u>1,294,820</u> | <u>-</u> | <u>4,541,840</u> |

Depreciation expense was charged to the following functions:

| | |
|--|-------------------|
| Governmental activities: | |
| Instruction | \$ 145,072 |
| Student support services | 18,364 |
| Instructional staff support services | 85,511 |
| General administration | 4,038 |
| Business administration | 55,308 |
| Plant operations and maintenance | 8,437 |
| Central and other support services | 162,734 |
| Total depreciation expense – governmental activities | <u>\$ 479,464</u> |

Furniture and equipment within governmental activities includes \$375,000 of information technology equipment acquired under capital leases.

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Business type activities: | | | | |
| Furniture and equipment | \$ 23,655 | - | - | 23,655 |
| Less accumulated depreciation | 23,655 | - | - | 23,655 |
| Business type activities capital assets, net | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(5) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year |
|-------------------------------|---------------------------------|---------------|----------------|---------------------------|
| Certificates of participation | \$ 750,000 | - | 78,993 | 671,007 |
| Capital leases | 257,111 | - | 28,730 | 228,381 |
| Compensated absences | 193,374 | 79,626 | 81,225 | 191,775 |
| Total | <u>\$ 1,200,485</u> | <u>79,626</u> | <u>188,948</u> | <u>1,091,163</u> |

Certificates of Participation

The Agency has sold certificates of participation for land and facilities for a total of \$750,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twelve years with an interest rate of 5%. The following is a schedule by year of the future minimum payments required:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|-------------------|----------------|----------------|
| 2005 | \$ 60,854 | 33,550 | 94,404 |
| 2006 | 63,896 | 30,508 | 94,404 |
| 2007 | 67,091 | 27,313 | 94,404 |
| 2008 | 70,446 | 23,958 | 94,404 |
| 2009 | 73,968 | 20,436 | 94,404 |
| 2010-2013 | <u>334,752</u> | <u>42,864</u> | <u>377,616</u> |
| Total | <u>\$ 671,007</u> | <u>178,629</u> | <u>849,636</u> |

Payments on the certificates of participation for the year ended June 30, 2004, including interest, totaled \$94,404.

Capital Leases

The Agency has entered into agreements to lease information technology equipment. The agreements are for periods of four to eight years at interest rates ranging from 5% to 8%. The leases expire between June 2005 and June 2009 and also require the payment of normal maintenance charges. The following is a schedule by year of future payments required:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|-------------------|---------------|----------------|
| 2005 | \$ 45,268 | 9,318 | 54,586 |
| 2006 | 46,159 | 8,427 | 54,586 |
| 2007 | 47,012 | 7,574 | 54,586 |
| 2008 | 47,664 | 6,922 | 54,586 |
| 2009 | 42,278 | 3,649 | 45,927 |
| Total | <u>\$ 228,381</u> | <u>35,890</u> | <u>264,271</u> |

Payments under these agreements for the year ended June 30, 2004, including interest, totaled \$54,586.

(6) Operating Leases

The Agency has leased various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2005 and June 30, 2009. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2004.

| Year Ending June 30, | Amount |
|----------------------------|-------------------|
| 2005 | \$ 138,416 |
| 2006 | 134,120 |
| 2007 | 134,120 |
| 2008 | 124,210 |
| 2009 | <u>114,320</u> |
| Total | <u>\$ 645,186</u> |

Total rental expenditures for the year ended June 30, 2004 for all operating leases, except those with terms of a month or less that were not renewed, was \$141,220.

(7) Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$627,786, \$597,891 and \$569,420, respectively, equal to the required contributions for each year.

(8) Risk Management

Sample Area Education Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Sample Area Education Agency

Required Supplementary Information

Sample Area Education Agency

Schedule of Revenues, Expenditures/Expenses and Changes
in Balances – Budget and Actual
All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual |
|--|---------------------------------|-------------------------------|-----------------|
| Revenues: | | | |
| Local sources | \$ 9,096,118 | 253,221 | 9,349,339 |
| State sources | 8,002,277 | - | 8,002,277 |
| Federal sources | 3,134,210 | - | 3,134,210 |
| Total revenues | 20,232,605 | 253,221 | 20,485,826 |
| Expenditures/Expenses: | | | |
| Current: | | | |
| Instruction | 7,545,164 | - | 7,545,164 |
| Student support services | 4,731,939 | - | 4,731,939 |
| Instructional staff support services | 5,459,930 | - | 5,459,930 |
| General administration | 2,078,708 | - | 2,078,708 |
| Business administration | 909,988 | - | 909,988 |
| Plant operations and maintenance | 363,995 | - | 363,995 |
| Central and other support services | 909,990 | - | 909,990 |
| Non instructional programs | - | 256,552 | 256,552 |
| Facilities acquisition and construction | 469,438 | - | 469,438 |
| Debt service | 148,990 | - | 148,990 |
| Total expenditures/expenses | 22,618,142 | 256,552 | 22,874,694 |
| Deficiency of revenues under expenditures/expenses | (2,385,537) | (3,331) | (2,388,868) |
| Balance beginning of year | 5,508,628 | 14,223 | 5,522,851 |
| Balance end of year | \$ 3,123,091 | 10,892 | 3,133,983 |

See accompanying independent auditor's report.

| Budget Amount | | Final to |
|---------------|-------------|-----------|
| Original | Final | Actual |
| | | Variance |
| 9,000,200 | 9,125,200 | 224,139 |
| 8,344,336 | 8,344,336 | (342,059) |
| 3,200,500 | 3,200,500 | (66,290) |
| 20,545,036 | 20,670,036 | (184,210) |
| 7,503,715 | 7,628,715 | 83,551 |
| 4,937,400 | 4,937,400 | 205,461 |
| 5,511,000 | 5,511,000 | 51,070 |
| 2,212,700 | 2,212,700 | 133,992 |
| 960,100 | 960,100 | 50,112 |
| 375,000 | 375,000 | 11,005 |
| 928,500 | 928,500 | 18,510 |
| 278,594 | 278,594 | 22,042 |
| 500,000 | 500,000 | 30,562 |
| 148,990 | 148,990 | - |
| 23,355,999 | 23,480,999 | 606,305 |
| (2,810,963) | (2,810,963) | 422,095 |
| 5,125,469 | 5,125,469 | 397,382 |
| 2,314,506 | 2,314,506 | 819,477 |

Sample Area Education Agency

Note to Required Supplementary Information – Budgetary Reporting

June 30, 2004

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents function disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

Other Supplementary Information

Schedule 1

Sample Area Education Agency

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

| | Special Revenue | | | |
|--|--------------------|---------------------|-----------------|---------------|
| | Juvenile Home | Capital Projects | Debt Service | Total |
| Assets | | | | |
| Cash and pooled investments | \$ - | 42,468 | 2,513 | 44,981 |
| Due from other governments | 48,887 | - | - | 48,887 |
| Total assets | \$ 48,887 | 42,468 | 2,513 | 93,868 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 43,280 | - | - | 43,280 |
| Salaries and benefits payable | 5,607 | - | - | 5,607 |
| Total liabilities | 48,887 | - | - | 48,887 |
| Fund balances: | | | | |
| Unreserved, undesignated | - | 42,468 | 2,513 | 44,981 |
| Total liabilities and fund balances | \$ 48,887 | 42,468 | 2,513 | 93,868 |

See accompanying independent auditor's report.

Sample Area Education Agency

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

| | Special Revenue | | | |
|--|--------------------|---------------------|-----------------|-----------|
| | Juvenile Home | Capital Projects | Debt Service | Total |
| Revenues: | | | | |
| Local sources | \$ - | 4,624 | 6,329 | 10,953 |
| State sources | 270,148 | - | - | 270,148 |
| Total revenues | 270,148 | 4,624 | 6,329 | 281,101 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 266,459 | - | - | 266,459 |
| General administration | 3,689 | - | - | 3,689 |
| Facilities acquisition and construction | - | 469,438 | - | 469,438 |
| Debt service | - | - | 148,990 | 148,990 |
| Total expenditures | 270,148 | 469,438 | 148,990 | 888,576 |
| Deficiency of revenues under expenditures | - | (464,814) | (142,661) | (607,475) |
| Other financing sources: | | | | |
| Transfers in | - | - | 143,279 | 143,279 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | - | (464,814) | 618 | (464,196) |
| Fund balances beginning of year | - | 507,282 | 1,895 | 509,177 |
| Fund balances end of year | \$ - | 42,468 | 2,513 | 44,981 |

See accompanying independent auditor's report.

Schedule 3

Sample Area Education Agency

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds

For the Last Four Years

| | Modified Accrual Basis | | | |
|---|------------------------|------------|------------|------------|
| | Years ended June 30, | | | |
| | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | |
| Local | \$ 9,096,118 | 8,487,263 | 7,664,982 | 7,541,561 |
| State | 8,002,277 | 8,381,599 | 7,898,637 | 7,628,597 |
| Federal | 3,134,210 | 2,506,723 | 2,257,936 | 2,207,468 |
| Total | \$ 20,232,605 | 19,375,585 | 17,821,555 | 17,377,626 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | \$ 7,545,164 | 7,371,921 | 7,260,807 | 7,107,821 |
| Student support services | 4,731,939 | 4,523,659 | 4,455,659 | 4,212,659 |
| Instructional staff support services | 5,459,930 | 5,322,545 | 5,122,145 | 5,009,887 |
| General administration | 2,078,708 | 2,009,554 | 2,000,987 | 1,999,872 |
| Business administration | 909,988 | 900,872 | 895,662 | 890,554 |
| Plant operations and maintenance | 363,995 | 360,954 | 357,854 | 355,458 |
| Central and other support services | 909,990 | 900,874 | 895,664 | 890,556 |
| Facilities acquisition and construction | 469,438 | 98,569 | - | - |
| Debt service | 148,990 | 45,698 | - | - |
| Total | \$ 22,618,142 | 21,534,646 | 20,988,778 | 20,466,807 |

See accompanying independent auditor's report.

Sample Area Education Agency
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

| Project Title | CFDA Number | Pass- through Grantor's Number | Expenditures |
|--|----------------|---|------------------|
| Indirect: | | | |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Special Education - Grants to States | 84.027 | | |
| Preschool Handicapped Program | | 35011 | \$ 2,258,342 |
| Supplemental Support Services | | 04K74-11 | 42,445 |
| Diagnostic Evaluation Program | | 04K75-11 | 8,750 |
| Enhancing the Parent-Educator Connection | | 17411 | 1,338 |
| Planning, Policy and Procedures Revisions | | 1K42 | 93,065 |
| Behavior Initiative Facilitator | | 15515 | 78,477 |
| | | | <u>2,482,417</u> |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | | |
| Interagency Regional Grant, Part H | | H04-R11 | 2,686 |
| Early Childhood Special Education, Infants and Toddlers | | H04-R12 | 56,256 |
| | | | <u>58,942</u> |
| Special Education - Preschool Grants | 84.173 | 04-619-11 | <u>317,010</u> |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | | <u>46,800</u> |
| Anytown Independent Schools: | | | |
| Title I Grants to Local Educational Agencies | *84.010 | | <u>28,452</u> |
| Sperryville Community Schools: | | | |
| Title I Grants to Local Educational Agencies | *84.010 | | <u>7,261</u> |
| Green Springs Community Schools: | | | |
| Title I Grants to Local Educational Agencies | *84.010 | | <u>7,209</u> |
| Clear Waters Community Schools: | | | |
| Title I Grants to Local Educational Agencies | *84.010 | | <u>6,087</u> |
| Sample Area Community College: | | | |
| Star Schools | 84.203 | | <u>21,161</u> |

Sample Area Education Agency
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

| Project Title | CFDA Number | Pass- through Grantor's Number | Expenditures |
|---|----------------|---|---------------------|
| Indirect (continued): | | | |
| U.S. Department of Health and Human Services: | | | |
| Iowa Department of Public Health: | | | |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | | 158,871 |
| Total | | | <u>\$ 3,134,210</u> |

* Total expenditures for CFDA Number 84.010 were \$49,009.

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample Area Education Agency and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

Sample Area Education Agency



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Directors of
Sample Area Education Agency:

We have audited the financial statements of Sample Area Education Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Area Education Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Sample Area Education Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Sample Area Education Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Area Education Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Area Education Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Area Education Agency and other parties to whom Sample Area Education Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Area Education Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

**Independent Auditor's Report on
Compliance with Requirements Applicable to Each
Major Program and Internal Control over Compliance**

Sample Area Education Agency



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building

Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA

Auditor of State

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Directors of
Sample Area Education Agency:

Compliance

We have audited the compliance of Sample Area Education Agency with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Sample Area Education Agency's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sample Area Education Agency's management. Our responsibility is to express an opinion on Sample Area Education Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample Area Education Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample Area Education Agency's compliance with those requirements.

In our opinion, Sample Area Education Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Sample Area Education Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sample Area Education Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Sample Area Education Agency's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described as items III-A-04 and III-B-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample Area Education Agency and other parties to whom Sample Area Education Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Sample Area Education Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.173 – Special Education – Preschool Grants
 - CFDA Number 84.027 – Special Education – Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample Area Education Agency did not qualify as a low-risk auditee.

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Part II: Findings Related to the Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

II-B-04 Prenumbered Checks – General Fund handwritten checks were numbered as they were written.

Recommendation – Control over disbursements would be strengthened if checks were prenumbered by the printer or a second or independent individual and were issued in the proper sequence. This would increase the accountability of checks issued and would prevent duplication of numbers.

Response – Handwritten checks will be prenumbered beginning in October 2004.

Conclusion – Response accepted.

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Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 84.027: Special Education – Grants to States
CFDA Number 84.173: Special Education – Pre School Grants
Federal Award Year: 2003
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement as soon as possible.

Conclusion – Response accepted.

III-B-04 Prenumbered Checks – General Fund handwritten checks were numbered as they were written.

Recommendation – Control over disbursements would be strengthened if checks were prenumbered by the printer or a second or independent individual and were issued in the proper sequence. This would increase the accountability of checks issued and would prevent duplication of numbers.

Response – Handwritten checks will be prenumbered beginning in October 2004.

Conclusion – Response accepted.

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Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Budget – Expenditures during the year ended June 30, 2004 did not exceed the amount budgeted.
- IV-C-04 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------------|-----------------------------------|---------------|
| Local Flower Shop | Flower arrangements for gifts | \$ 332 |
| Local Quick Shop | Pop and food for Agency employees | 239 |

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board of Directors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Agency should establish written policies and procedures, including requirements for proper documentation.

Response – We will document this in the future.

Conclusion – Response accepted.

- IV-D-04 Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

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- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa were noted.
- IV-I-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

Sample Area Education Agency

Staff

This audit was performed by:

John Q. Review, CPA, Manager
Margo Setter, CPA, Senior Auditor
Jerome Warning, CPA, Senior Auditor
Terry Tickmark, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State